

Message Text

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PAGE 01 EC BRU 08451 01 OF 02 301316Z

47

ACTION EUR-12

INFO OCT-01 IO-04 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-04 FRB-01 H-01 INR-05 INT-05 L-01

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TO SECSTATE WASHDC 7713

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION OECD PARIS

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LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 8451/1

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: COMMISSION'S STUDY ON EC BUDGET SHARES AND UK "RENEGOTIA-
TION"

REF: A) LONDON 13641

B) EC BRUSSELS 8393

C) EC BRUSSELS 7694

D) EC BRUSSELS A-318, OCTOBER 18, 1974

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PAGE 02 EC BRU 08451 01 OF 02 301316Z

E) EC BRUSSELS 7439

F) EC BRUSSELS 7186

1. BEGIN SUMMARY: THE COMMISSION HAS NOW RELEASED TO THE MEMBER STATES ITS PROJECTIONS ON CONTRIBUTIONS AND RELATIVE GNP'S, GIVING SOME SUPPORT TO THE BRITISH CONTENTION THAT BRITIAN WILL SOON BE PAYING MORE THAN HER FAIR SHARE. NOEL ESTIMATES THAT THIS IS AN ISSUE WHICH CAN BE SETTLED. MANY OF THE REMAINING "RENGOTIATION" ISSUES WILL HAVE SEEN CONSIDERABLE MOVEMENT BY SPRING, PERHAPS SUFFICIENT FOR A WILLING LABOR GOVERNMENT TO CLAIM THAT IT HAS ATTAINED ITS OBJECTIVES. END SUMMARY.

2. THE EC COMMISSION APPROVED ON OCTOBER 23 A STUDY ANALYZING THE PROJECTED BURDEN OF THE COMMUNITY'S BUDGET ON THE MEMBER STATES. THIS STUDY, WHICH WAS REQUESTED BY THE UK LAST JUNE, HAS BEEN FORWARDED TO THE COUNCIL, AND MAY BE DISCUSSED AT ITS NOVEMBER 12 MEETING. IN ITS RENEGOTIATION POSITION THE UK HAS CLAIMED THAT THE EC BUDGET SYSTEM PLACES AN UNFAIR BURDEN ON MAJOR IMPORTING COUNTRIES. THE UK HAS STATED THAT BY 1980 IT WILL PAY 24 PERCENT OF THE EC BUDGET WHILE ITS GROSS NATIONAL PRODUCT WILL AMOUNT TO ONLY 14 PERCENT OF THE EC'S TOTAL GNP. THE UK WOULD LIKE TO HAVE THE COUNCIL RECOGNIZE THAT SUCH A GAP IS UNACCEPTABLE AND AGREE TO CLOSE IT.

3. THE COMMISSIONS STUDY CALCULATES THE HYPOTHETICAL GAP BETWEEN GNP AND BUDGETARY SHARES WHICH WOULD HAVE EXISTED FOR 1973 AND 1974 IF THE SYSTEM OF "OWN RESOURCES" WERE FULLY OPERATIONAL NOW. UNDER THIS SYSTEM, MEMBER STATES WOULD CONTRIBUTE ALL THEIR INCOME FROM AGRICULTURAL LEVIES, CUSTOM DUTIES AND UP TO ONE PERCENT OF REVENUE FROM THE VALUE ADDED TAX (VAT) TO THE EC BUDGET. THE GAP BWTWEEN BUDGET CONTRIBUTION AND GNP SHARES RESPECTIVELY WOULD BE UNFAVORABLE FOR THREE COUNTRIES: UK, 22 VS. 15.9 PERCENT; THE NETHERLANDS, 8.7 VS. 6.0 PERCENT; AND BELGIUM/LUXEMBOURG, 5.4 VS. 4.7 PERCENT. TWO COUNTRIES WOULD ENJOY A FAVORABLE SITUATION: GERMANY, 30.2 VS. 33.6 PERCENT; AND FRANCE, 18.2 VS. 23.2 PERCENT.

4. THE COMMISSION DOES NOT DRAW ANY FIRM CONCLUSIONS CONCERNING MEMBER STATES' RELATIVE SHARES IN 1980. THE STUDY INDICATES SOME MEMBERS ARE GROWING AT A SLOWER RATE THAN LIMITED OFFICIAL USE

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PAGE 03 EC BRU 08451 01 OF 02 301316Z

OTHERS. THE UK, FOR EXAMPLE, IS ESTIMATED TO HAVE A REAL GNP GROWTH RATE OF 3-3.5 PERCENT PER ANNUM BETWEEN 1974-1980 WHILE THE EC'S AVERAGE RATE WILL BE 4-4.5 PERCENT. AS A RESULT, THE INEQUITIES OF THE CURRENT BUDGET SYSTEM ARE LIKELY TO INCREASE. THUS, EVEN THOUGH THE SYSTEM PROVIDES FOR MODEST ADJUSTMENTS IN EACH MEMBER'S RELATIVE SHARE OF THE BUDGET BURDEN DURING THE TRANSITIONAL PERIOD (SEE REF. D) THE STUDY CONCLUDES THAT "PROBLEMS MAY ARISE IN THE FUTURE."

5. OUR UK SOURCES ARE SATISFIED WITH THE STUDY BECAUSE IT CAN BE CONSTRUED AS SUPPORTING THE UK CASE. EVEN THOUGH ITS CONCLUSIONS ARE HYPOTHETICAL AND AMBIGUOUS, THE STUDY RECOGNIZES THAT THERE IS A POTENTIAL PROBLEM AND THIS IS SUFFICIENT FOR THE UK TO SUBSTANTIATE ITS CLAIM THAT THE GROWING GNP-BUDGET GAP IS UNACCEPTABLE. HOWEVER, OTHER MEMBER STATES WILL BE ABLE TO ARGUE THAT THE 1974 DATA WILL NOT NECESSARILY HOLD FOR THE FUTURE. THEY CAN ALSO ARGUE THAT A COMPARISON BETWEEN GNP-BUDGET SHARES IS NOT RELEVANT.

6. COMMENTING ON THE COMMISSION'S PROJECTIONS DURING A CONVERSATION WITH US ON OCTOBER 28, NOEL, SECRETARY GENERAL OF THE EC COMMISSION, NOTED THAT A DISPARITY OF ONLY 5 PERCENTAGE POINTS BETWEEN THE BRITISH SHARE OF THE EC BUDGET AND THEIR SHARE OF THE COMMUNITY GNP WOULD AMOUNT TO ABOUT 200 MILLION UNITS OF ACCOUNT, A FIGURE WHICH HE DOES NOT REGARD AS BEING TOO DRASTIC. IN ANY EVENT, NOEL SEEMED TO FEEL THAT IT WOULD BE POSSIBLE TO FIND SOME FORMULA WHICH WOULD RELATE BUDGETARY CONTRIBUTIONS TO GNP AND WHICH WOULD MEET THE BRITISH CONCERN ON THIS ISSUE. NOEL SAID THAT, WHILE DETAILED NEGOTIATIONS ON THIS OR OTHER ASPECTS OF RENEGOTIATION WOULD BE UNLIKELY AT THE SUMMIT, HE THOUGHT IT PROBABLE THAT THE HEADS OF GOVERNMENT WOULD TRY TO REACH AN UNDERSTANDING ON THE BROAD OUTLINES OF A RENEGOTIATION PACKAGE. (IN A SEPARATE TALK ON OCTOBER 29 SOAMES SAID HE THOUGHT THE SUMMIT WOULD TRY TO SET THE "PARAMETERS" FOR RENEGOTIATION.)

7. MANY OF THESE OTHER ISSUES ARE MOVING ALONG ON THEIR OWN. FOR EXAMPLE, THOUGH THERE REMAIN, AS DESCRIBED IN REF B, A NUMBER OF MAJOR UNRESOLVED ISSUES IN THE EC/ACP NEGOTIATIONS (DETAILS OF THE EXPORT EARNINGS STABILIZATION SCHEME, INSTITUTIONAL ARRANGEMENTS, SUGAR, ETC.), MOST EXPECT THAT LIMITED OFFICIAL USE

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PAGE 04 EC BRU 08451 01 OF 02 301316Z

THESE PROBLEMS CAN BE SETTLED, IF NOT BEFORE JANUARY 31, THEN SHORTLY THEREAFTER. THIS WILL TAKE CARE OF THE MAJOR PART OF THE COMMONWEALTH PROBLEM.

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PAGE 01 EC BRU 08451 02 OF 02 301320Z

47

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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 8451/2

8. DURING SIR CHRISTOPHER SOAMES' VISIT TO THE SOUTH PACIFIC, BOTH THE NEW ZEALANDERS AND THE AUSTRALIANS WERE CLEAR IN THEIR MESSAGE THAT THEY PREFERRED SEEING BRITIAN IN THE COMMUNITY RATHER THAN OUT OF IT. THE MAIN PRECISE ISSUE, HOWEVER, REMAINS THE CONDITION FOR ENTRY OF NEW ZEALAND DAIRY PRODUCTS, AND IT IS NOT CLEAR HOW MUCH THE OTHER MEMBER STATES ARE WILLING TO GIVE. EARLIER THIS YEAR NEW ZEALAND HAD TO PUSH HARD TO INCREASE HER REVENUES ON CURRENT BUTTER SALES, AN ISSUE ON WHICH SHE FELT THE UK LIMITED OFFICIAL USE

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PAGE 02 EC BRU 08451 02 OF 02 301320Z

WAS NOT VERY HELPFUL. IT WILL BE UP TO BRITIAN TO DEFINE WHAT SHE CONSIDERS A SATISFACTORY ARRANGEMENT FOR NEW ZEALAND DAIRY PRODUCTS AFTER 1977.

9. DURING THE CAP "STOCK-TAKING" THE BRITISH WILL BE ABLE TO POINT TO GERMAN ASSISTANCE IN PUSHING HARD FOR CHANGES,

THOUGH IT IS QUESTIONABLE WHETHER THE SHAPE OF ANY SUCH CHANGES WOULD BE CLEAR IN LESS THAN SIX OR EIGHT MONTHS. EVEN WITHOUT THIS, HOWEVER, THERE IS NO DOUBT THAT THE COUNCIL DECISIONS TO SUBSIDIZE BRITISH SUGAR IMPORTS AND TO ALLOW BRITISH EXCEPTIONS FROM THE CAP AS WELL AS THE CONTINUING CEREAL SITUATION WILL ALLOW BRITIAN TO CLAIM THAT THE CAP IS NO LONGER THE BEAST THAT IT WAS.

10. APART FROM THE ISSUE OF BRITIAN'S ABILITY TO MAINTAIN HERE OWN REGIONAL DEVELOPMENT ASSISTANCE PROGRAMS, THE FINANCIAL EFFECT OF AN EC REGIONAL PROGRAM AND ITS POLITICAL IMPORTANCE TO THE BRITISH WILL DEPEND HEAVILY ON DECISIONS ABOUT THE SIZE OF THE BUDGET. IF BRITIAN SUCCEEDS IN GETTING HER BUDGET CLAIMS RECOGNIZED, THE POLITICAL NEED FOR A LARGE REGIONAL FUND WILL BECOME MUCH LESS SEVERE.

11. FINALLY -- AND DESPITE TALK ABOUT A DATE FOR DIRECT ELECTIONS OF THE EUROPEAN PARLIAMENT AND LIMITED MAJORITY VOTING IN THE COUNCIL -- THE GENERAL THRUST AMONG THE NINE IS NOT TOWARD A MORE SUPRA-NATIONAL COMMUNITY. THIS IS PARTICULARLY THE CASE NOW THAT ECONOMIC AND MONETARY UNION HAS BEEN PUSHED OFF INTO THE INDEFINITE FUTURE. THESE CIRCUMSTANCES SHOULD HELP WITH THE "SOVEREIGNTY" ISSUE THAT SEEMS OF SUCH CONCERN TO SOME IN THE UK PARLIAMENT.

12. WE ARE TRANSMITTING THE TEXT OF THE EC COMMISSION PAPER ON THE BUDGET BY AIRGRAM.MYERSON

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